

REPORT TO THE LEGISLATURE

CHILD SUPPORT FULL COLLECTION PROGRAM



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Department of Child Support Services

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REPORT MANDATE

This report is mandated by Provision 1 of Item 5175-001-0001 contained in the Budget Act of 2005, Chapter 38, Statutes of 2005.

This report fulfills the requirement mandating the California Department of Child Support Services (DCSS) to report to the chairperson of the committee in each house of the Legislature that considers appropriations, and the Chairperson of the Joint Legislative Budget Committee on the activities and cost-effectiveness of the Child Support Full Collection Program (FCP) positions. The report shall describe any changes in the activities of these positions to increase collections and the current and anticipated collections attributed to these positions, case inventory per position, and collections per case and per position.

EXECUTIVE SUMMARY

AB 2358 (Chapter 806, Statutes of 2004) required DCSS to assume responsibility for child support collection activities previously enforced by Franchise Tax Board (FTB). This transfer, which occurred on July 1, 2005, was necessary in order to meet the federal mandate to develop and implement the California Child Support Automation System. This report provides an overview of the Child Support Full Collections Program (FCP) activities and cost effectiveness.

During 2004-05, the FCP program collected a total of \$76 million in child support collections at a cost of \$12.9 million (\$4.4 million General Fund and \$8.5 million federal funds). The total return for enforcement activities undertaken by the FCP during 2004-05 amounted to \$5.90 in collections for each dollar of cost.

During 2005-06, the FCP discontinued the issuance of wage levies on its caseload. Local child support agencies take these wage withholding actions through largely automated activities based on the employment information they receive routinely through federal and state information sources. The discontinuation of these highly automated activities has allowed the FCP to increase the number of cases it manages actively in the pursuit of collections through bank levy and manual collection activities. This shift will reduce collections credited to the FCP program, but will, to some degree allow staff to shift to more intensive case management on accounts most likely to yield collections from sources other than wages. DCSS projects that total collections in 2005-06 will reach \$46.1 million at a cost of \$15.6 million (\$5.1 General Fund and \$10.5 federal funds). The total return for enforcement activities undertaken by the FCP during 2005-06 are projected to return \$2.96 in collections for each dollar of cost.

BACKGROUND

Originally conceived in 1993 under the umbrella of the Franchise Tax Board (FTB), the Full Collections Program (FCP) staff has responsibility for providing enhanced collection activities for child support cases with arrearages referred from local child support agencies (LCSAs). These state level activities are designed to supplement the enforcement functions being undertaken by LCSAs. In many cases the FCP is in a better position to collect past due child support. The FCP has access to information not available to local agencies regarding the location or financial capacity of parents who owed child support and to collection tools and automated processing available in systems developed by the Franchise Tax Board . In addition the specialized staff is in a position to focus its efforts on collecting arrearages as quickly and effectively as possible.

From its inception in 1993 through June 2005, the FCP has collected over \$812.5 million in child support. The FCP forwards monies collected to the referring LCSA which disburses monies to the custodial parents in accordance with the welfare recoupment benefit rules established by the federal Department of Health and Human Services (HHS). As counties convert to the State Disbursement Unit (SDU), these collections will be sent directly to the SDU

The business processes that support this program fall into one of four broad categories: contacting NCPs for payment of arrears, locating assets, initiating enforcement actions, and processing collections. FCP activities are performed by staff that uses an automated system which searches through more than 220,000,000 income records to locate an individual's assets. LCSAs have referred to the FCP over 700,000 cases for enforcement actions which include a total of 590,000 non-custodial parents (NCPs) who owe child support. These cases are sent to the FCP after an NCP has accumulated \$100 in arrears and is more than 60 days delinquent. Cases referred to the FCP are worked concurrently with the counties.

In July 2005, the FCP transferred to the Department of Child Support Services (DCSS) to ensure statewide consistency in accordance with AB 2358. The transfer continued the consolidation of child support functions within the state Department of Child Support Services.

OVERVIEW OF FCP ENFORCEMENT ACTIVITIES

The Full Collections Program (FCP) provides enhanced collection activities for child support cases with arrearages referred to the program from local child support agencies (LCSAs). Broadly speaking, the FCP enforcement activities are undertaken at two levels. The first level includes the automated processes undertaken by the Child Support Recovery (CSR) system and activities that are required to follow up on the CSR actions. The second level of enforcement includes numerous manual activities that some accounts require in order to be resolved. These enforcement activities consist of working a variety of case types and enforcement actions and techniques. An important focus of Level II staff is to search for and collect on accounts which are outside the reach of the child support automated system and include individuals such as the self-employed, and those who are actively evading collections by hiding income and assets and working in the underground and cash economy.

Level I Processes

Each month, LCSAs send an electronic file of delinquent non-custodial parents (NCPs) meeting specific criteria relating to the amount of unpaid child support. The file contains a last known address for matching against sources of information about the existence and location of NCP assets. Each delinquent NCP constitutes an FCP Account and can consist of more than one child support case in more than one LCSA. For purposes of this report, a Case represents an Account. The data on each delinquent account is processed and maintained by the automated CSR system, implemented in March 2003.

When an Account is first referred to the FCP, the CSR system automatically issues a Demand for Payment to the NCP to inform them of the intent to collect on their unpaid child support. After 20 days, the CSR system attempts to locate assets owned by the NCP through a variety of system matches. These asset sources include:

- Financial Institution Data Match (FIDM) – Matching with financial institutions that do business solely in California. This information is used to collect arrears using the bank levy process.
- Multi-State FIDM (MS-FIDM) – Matching with financial institutions that do business in more than one state. This information is used to collect arrears using the bank levy process.
- New Employee Registry (NER) / Independent Contractor Reporting (ICR) – Employment and service income information received from EDD. This information was formerly used to generate the Earnings Withholding Order (EWO) and the Continuous Order to Withhold (COTW). It is now referred to LCSAs for issuance of wage withholding orders.

- FTB Master Payer File – Asset information regarding NCP employers and 1099 income (generally dividend and interest income). This information was also used to generate the EWO and COTW.

The FCP staff pursue two approaches to identify assets in financial institutions: the FIDM and MS-FIDM. The FIDM process is managed separately from the MS-FIDM process. Financial institutions that do business solely in California are legislatively mandated to provide financial account match information to the FCP. FTB conducts a match process with in-State financial institutions to obtain account holder information, and transfers match information about NCPs into the CSR system. Currently, DCSS provides MS-FIDM information to CSR via the federally-operated Interim Federal Case Registry (IFCR) system.

The CSR system has the ability to analyze asset match information that is received from these external matching sources and can determine the appropriate enforcement actions. The system identifies and initiates the proper enforcement action to be used depending on the date of the last action and the compliance status of the NCPs account. If the NCP has not responded to a demand notice and a bank asset exists, the CSR system issues an Order to Withhold (OTW), or Exempt Order to Withhold (EOTW) to the financial institution to attach the funds up to the balance owed. An OTW, which attaches 100% of the funds deposited in a financial institution, is issued when the NCP does not have regular wage withholding in place. An EOTW, which allows the NCP to retain \$3,500 in deposits, is issued when the NCP is paying current child support through regular wage withholding.

Most of the Level I processes are automated processes. Staffing that supports the Level I processes primarily handle contacts from NCPs who respond to the system-generated initial Demand for Payment or subsequent withholding orders that affect their assets.

Incoming calls are directed to the Interactive Voice Response Unit (IVR) which can handle many of the telephone calls made in response to demand letters sent by the CSR system. The most complex calls are directed to the Contact Center. The Contact Center staff works to resolve the account and re-engage the NCP by using appropriate customer service and collection solutions. They gather information regarding asset information outside the CSR system, make determinations of hardship, secure payment in full or suggest alternative payment methods. The NCP can enter into an EFT Pay arrangement or a manual pay arrangement once they contact the FCP and have completed a financial statement to determine ability to pay.

Staff also work closely with the LCSAs by sharing information, verifying collection actions and working through complex and sensitive issues such as mistaken identity and disability. In addition, Contact Center staff performs manual workloads during non-peak hours. These workloads include:

- Demand for Payment Address Locate List -- Demand lists are work lists that identify accounts on CSR that have no address. The technician utilizes a variety of systems to locate the best address. The address is added to the account and a demand for payment letter issued.
- Mistaken Identity -- The FCP is notified by the LCSA via fax transmittal that the LCSA has submitted a case to the program with an incorrect social security number associated to the case. The technician manually disassociate the incorrect social security number from the account on the collection system and removes any potential assets (financial institutions) associated with the incorrect social security number to prevent any erroneous levies from being issued.
- Pending Order to Withhold/Exempt Order to Withhold (OTW / EOTW) -- Due to system and bank limitations on the number of levies that can be processed on a daily basis, a technician reviews a list of potential leviable accounts and sends an OTW/EOTW out manually. This workload supplements the system's automation capabilities.
- Exempt Order to Withhold (EOTW) with Payment -- After an EOTW attaches funds and the funds are remitted, these accounts are identified and an OTW (Order to Withhold) is issued a minimum of 90 days after the date the payment was received from the EOTW. A technician reviews a list of these accounts to identify if the timeframe has been met, verifies the payment was a result of the initial EOTW, and issues an OTW manually if appropriate.
- Release Earnings Withholding Order (EWO) Issues -- The system identifies those accounts where the department is still receiving payments from an employer on an EWO. A technician searches for accurate contact information for the employer and contacts the employer to confirm receipt of the release of the order and ensure the employer is remitting the payments correctly to the LCSA.
- Modified Earning Withholding Order (EWO) Transition -- While the FCP was issuing EWOs to NCPs, in some instances the NCP was set up for a payment arrangement and paying the arrangement via a modified EWO. In effort to ensure continued payment on the cases, even after the LCSA issued their wage levy, a technician contacts the NCPs to notify them of the change and determine the NCPs ability to pay additional amounts to the FCP.
- Payment Arrangements -- When NCP calls the Contact Center after the receipt of a Demand notice or notification of a bank levy, the technicians may negotiate payment arrangements after assessing the NCP's personal financial situation.

The FCP staff performing Level I collection activities include Contact Center Tax Technicians consisting of 50 staff including supervisors and managers.

Level II Processes

Level II collection activities are designed to collect arrearages for cases when the LCSA and the automated CSR system have been unable to make collections through their processes of tax offsets, wage attachments, demand letters and bank levies. Level II manual collectors identify and target NCPs who may have the ability to pay but are out of reach of the automated system. These include the self-employed, and individuals who take active steps to evade collections by hiding income and assets and working in the underground and cash economy.

These collectors rely on the Debtor Attribute Matching (DAM) functionality of the CSR system which is used to assign accounts to Level II compliance representatives. Asset, demographic data, payment history, employment history and tax return information are given a numeric value which adds up to a final scorecard and determines the probability of collection for each account. Those accounts with the highest probability of collection are assigned to the manual collectors and worked first.

Each manual collector works an average inventory of 250 accounts. They gather and analyze data, perform skip trace activities in order to locate NCPs and assets, contact NCPs and third parties as appropriate and utilize appropriate collection and customer service techniques to negotiate an appropriate resolution to the account. If they are unable to gain resolution through negotiation, collectors can pursue involuntary actions such as bank levies or referral to law enforcement for vehicle and safe deposit box seizures or other available actions.

Manual collectors also perform discovery collections. For example, through AB 1752 the FCP collection authority was expanded to require financial institutions to liquidate securities levied by an OTW or EOTW. Given the sensitive and complex nature of brokerage and other security accounts the most experienced collectors were given the task to develop appropriate procedures and customer service techniques to get the best use of this authority. Once the procedures were developed, the workload was spread to the full universe of accounts and training was given to all collectors and contact center staff. In addition, with the implementation of the single statewide child support system, the discovery group will work to determine the process for manual wage levies and other opportunities to centralize and maximize collections.

Collections from employers, financial institutions and other entities arising from FCP enforcement actions are received by FTB's central cashing operations. Collections are received and deposited into the State Treasury, and the State Controller's Office mails a warrant to the LCSA. The CSR system applies

collections to Accounts in order to update account balances and take the next appropriate enforcement action. The CSR system creates collection information files which are mailed, faxed or electronically sent to Department of Technology Services through FTB's mainframe. LCSA staff use local child support automation systems to allocate, distribute and disburse collections received from FCP enforcement actions. Collection processing will be integrated into the statewide computer system and State Disbursement Unit once those systems are in place.

Level II collection activities are performed by Locate and Enforcement Compliance Representatives consisting of 52 staff, including supervisors and managers.

As of July 2005, the DCSS transferred to the FCP the existing staff who manage the Passport Release Program, which prevents delinquent NCPs from renewing their passport unless the arrears are paid. Most routine activities in the program are handled through automated match systems. These staff handle emergency releases.

The Full Collections Program is also supported by additional personnel that provide IT support, legal support, business support services, and sensitive case handling. Additional staff remained at FTB where additional financial and administrative services are provided. FTB still performs the FIDM match with financial institutions and the CSR system, mailing of CSR generated bills and levies, processing of payments and correspondence from CSR bills, levies and payments generated from manual collections. Because the FCP staff are still located on site and FTB, and because DCSS did not have in place the financial and administrative services infrastructure required by the program, it was more cost effective to contract with FTB for these services.

FCP COST EFFECTIVENESS

FCP Collections

An accurate picture of the FCP cost effectiveness would show the collections for each level of collections activity and compare these collections to the cost of each level. Level I would be expected to provide a higher return due to the high level of automation. The more manual processes of Level II would be expected to show less return per unit of cost.

Data limitations make it difficult to quantify the specific collections per account and per staff person because of the way payments are processed. Payments are credited to the last bill sent, whether or not some additional enforcements action other than that billing was really the reason for the payment. For example, if a Demand was sent to a NCP on January 5th and a bank levy was issued on April 1st, a payment received on April 20th would be associated with the April 1st bank levy, even though it may have been the Demand which caused the NCP to pay. This process would also not correctly allocate payment between an automated or manually generated action.

In spite of these limitations it is possible to identify the amount of collections based on the most recent action taken. The following table shows the collections by the type of actions.

Table 1
FCP COLLECTIONS BY MOST RECENT ACTION
SFY 2004-05

MOST RECENT ACTION	COLLECTIONS
EWO	\$34,965,296
OTW	30,234,053
Exempt OTW	5,265,703
Demand Letter	3,168,374
Modification (unspecified)	697,839
COTW	683,106
Payment Arrangement	540,729
EFT Pay Arrangement	434,440
Other	67,543
TOTAL	\$76,057,086

FCP Costs

The following table shows total costs for the Full Collections Program during 2004-05, when the program was housed at the FTB.

Table 2
FCP PROGRAM COSTS
SFY 2004-05

CATEGORY	ACTUAL COSTS
Salaries and Benefits	\$ 9,445,721
OE & E	3,450,756
TOTAL	\$ 12,896,477

Based on these collections and the costs identified above, the total return for enforcement activities undertaken by the FCP during 2004-05 amounted to \$5.90 for each dollar of cost.

Changes in the FCP Enforcement Tools

Federal child support rules require all states to use a consistent wage assignment form and procedure, and computer system certification rules require the single statewide system to undertake the relevant enforcement actions. Because of these requirements, the FCP has phased out the use of the EWO as a mechanism to implement wage withholding for employed NCPs. Instead, counties are issuing wage withholding orders, and due to improvements in the information provided about employment through the federal case registry, counties receive information about employment more rapidly than they have in the past. As issuance of these orders has shifted to the counties, the FCP staff have turned their attention to a greater share of cases on the priority lists provided through the Debtor Attribute Match functionality of the CSR.

The first quarter of fiscal year 2005-06 has seen numerous changes to the FCPs workload and associated collections. With the loss of the ability to utilize the Earnings Withholding Order (EWO) and the Continuous Order to Withhold (COTW) the program has focused its attention on other workloads and their associated enforcement actions. In addition, FCP coordination with counties to replace the EWO with their wage levy has helped mitigate some of the loss in revenue. Additional efforts to mitigate losses rely heavily on the FCPs ongoing cooperation to share new employment information with all 58 counties as it becomes available. Furthermore, with full implementation of the single statewide system, the FCP will once again be able to take manual actions to generate wage levies and find other opportunities to enhance child support collection. Table 3 shows the projected collections in the current year that reflect the shifts in the nature of enforcement actions undertaken by the FCP.

Table 3
FCP PROJECTED COLLECTION
SFY 2005-06

MOST RECENT ACTION	PROJECTED COLLECTIONS
EWO	\$10,200,000
OTW	23,649,000
Exempt OTW	6,581,000
Demand Letter	3,250,000
Modification (unspecified)	600,000
COTW	250,000
Payment Arrangement	800,000
EFT Pay Arrangement	700,000
Other	95,000
TOTAL	\$46,125,000

Total enforcement actions projected FY 2005-06 collections total \$46 million. This is significantly less than the total collected in the prior year because of the shift to the counties in issuing wage assignments. The collections related to Earnings Withholding Orders (EWOs) and Continuous Orders to Withhold that had been accomplished by FCP are, instead, being accomplished by county issued wage withholding orders. The collections on these cases no longer appear as collections by the FCP, but rather as collections reported as part of all county collections.

To a large degree the EWO and COTW enforcement actions were accomplished with a high level of automation, and as a result, phasing out these activities resulted in a disproportionately small reduction in staff workload associated with these actions. Any staff time that has been freed up by the shifting of this workload to counties has allowed an increase in the number of FCP cases, in the overall inventory, that can be worked through Level II actions.

The FCP case inventory exceeds 579,000. Manual collectors are expected to carry an average inventory of 250 accounts and resolve an average of 45 accounts per month. FCP staff utilizes the CSR system to initiate automated actions where there are assets and DAM to identify the most collectible accounts for manual collections. Because of the prioritization of cases accomplished through the DAM system, the FCP can be assured that available staff time is working the most effective workloads.

Projected costs for 2005-06 are shown in the following table:

Table 4
FCP PROJECTED PROGRAM COSTS
SFY 2005-06

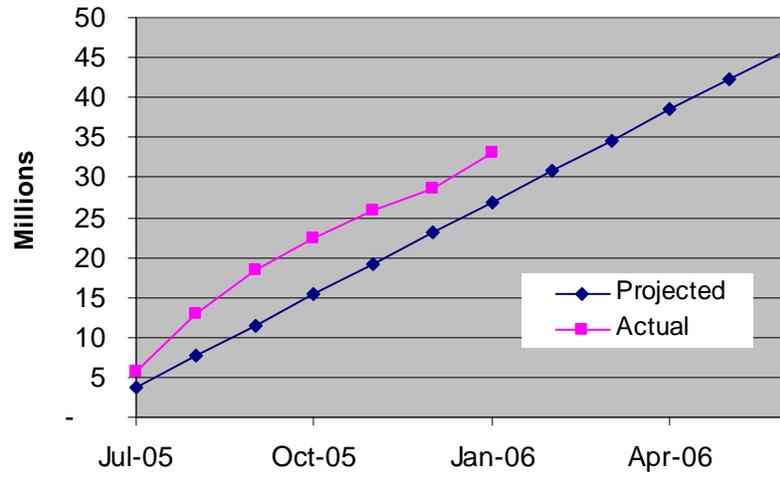
CATEGORY	BUDGETED COSTS
Salaries and Benefits	\$12,111,000
OE & E	\$3,485,000
TOTAL	\$15,596,000

Based on these collections and the costs identified above, the total return for enforcement activities undertaken by the FCP during 2005-06 will amount to \$2.96 for each dollar of cost.

The cost effectiveness for the FCP program in 2005-06 will likely exceed this amount for two reasons. First, actual costs will be less than the budgeted costs, because the budgeted costs do not reflect salary savings or actual operating expenses incurred during the year.

Second, actual collections are exceeding projections. The following chart compares the budget estimates for collections during 2005-06 with the actual monthly collections through January 2006. It shows that actual collections are exceeding projected by about \$5 million at this point in the year. The May Revisions will update the budgeted projection of collections and will reflect this higher than expected result. Higher actual collections would increase the full year cost effectiveness for the FCP for 2005-06 well above the amount projected above.

Chart 1
FCP Cumulative Collections
Projected vs. Actual
2005-06



CONCLUSION

During the 2004-05 state fiscal year the Full Collections Program (FCP) generated \$5.90 in collections for every dollar spent on enforcement activities. The projected collections for 2005-06 are less because collections that had been credited to FCP activities related to wage withholding are now being done by local child support agencies (LCSAs) and the related collections are reported by the counties. Based on the budgeted collections and expenditures for 2005-06, the FCP is expected to collect \$2.96 for each dollar spent on enforcement activities. However, year to date collections have exceeded the amount budgeted, and the FCP is headed to ending the year with cost effectiveness well excess of \$3.00 in collections per dollar expended.

Although the transition of the program from the FTB to the DCSS resulted in a loss of key collection tools and a resulting decline in collections, the FCP anticipates reclaiming both the ability to attach wages and the resulting collections as DCSS implements the single statewide system. The FCP is currently collecting at a rate that can be expected to result in nearly \$50 million this year and has collected over \$840 million in Child Support since it's inception in 1993. The FCP is a key and valuable tool in the collection of child support, effectively operating the FIDM and bank levy programs and providing collection services to enhance the work done at the local level. It will also provide the focus to allow the state to centralize any actions now being done by the counties individually that can be more effectively done in a centralized way.